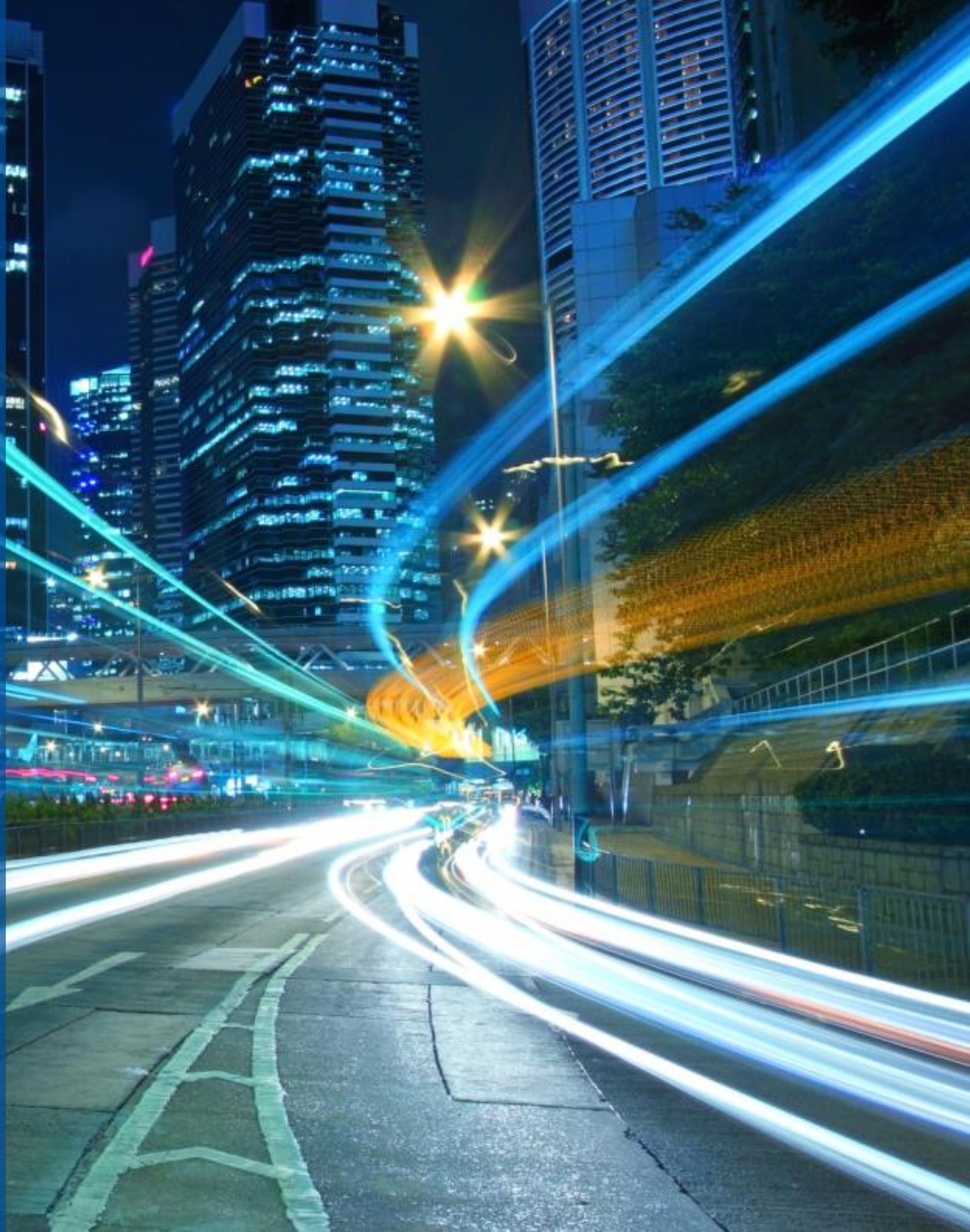
Preliminary Results

6 November 2018



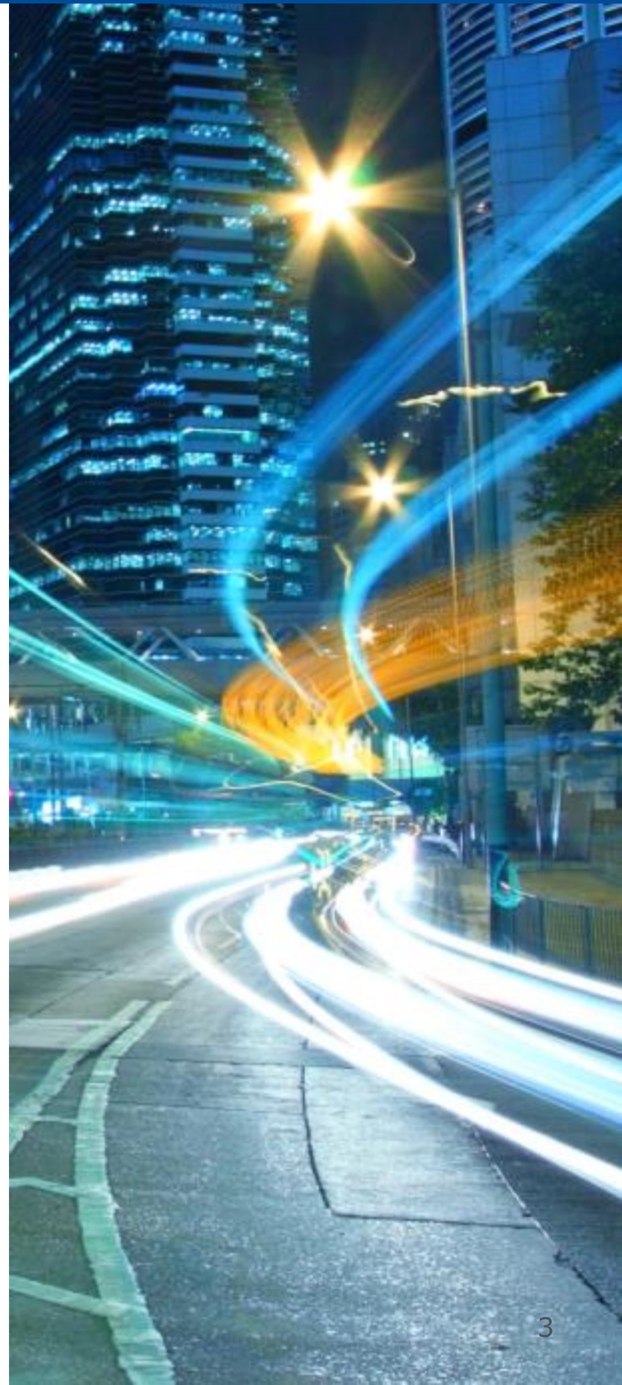
Headline Results

Gary Kennedy
Chairman

Connect group

Financial Headlines

		Var. FY17
Revenue	£1,534.3m	-3.8%
Adjusted PBT	£28.4m	-40.8%
Adjusted EPS	9.3p	-40.0%
Free cash flow	£20.2m	-29.6%
Net Debt	£83.4m	-1.6%
DPS	3.1p	-68.4%



Challenges in the year

Performance was affected by five key factors:

- Negative impact of integration at operational level
- Under performance of Tuffnells
- Shortfalls to internal efficiency targets
- Impact on core focus and accountabilities
- Losses and distraction of Pass My Parcel

Action underway

We have actions underway to stabilise and reset core performance:

- Closure of Pass My Parcel and more focused portfolio
- Refreshed Executive Team
- Focused operating unit structure
- Accelerated renewal of Smiths News contracts
- Clear priorities for FY2019
- Longer term value creation and capital management strategy

Group Financial & Business Update

Tony Grace
Chief Financial Officer

Group performance – continuing operations

£m Adjusted	Aug 2018	Aug 2017	Change %
Smiths News	35.9	40.4	-11.4%
DMD	3.0	2.3	30.4%
Tuffnells	(5.0)	12.0	-141.7%
Group operating profit	33.9	54.7	-38.0%
Net finance charges	(5.5)	(6.7)	17.9%
Group PBT	28.4	48.0	-40.8%
Tax	(5.5)	(9.9)	44.4%
Group PAT	22.9	38.1	(39.9%)
Number of shares	246.0	245.4m	0.1%
Earnings per share	9.3p	15.5p	-40.0%

Adjusting items – continuing operations

£m	Aug 2018	Aug 2017
Network and re-organisation costs	(3.1)	(8.0)
Vacant property	0.7	(0.6)
Acquisition and disposal costs	-	2.2
Pension credit	-	0.7
Settlement of interest rate swaps	-	(0.8)
Impairment of intangible assets	(46.1)	-
Pass my Parcel exit costs	(6.7)	-
Impairment of tangible assets	(1.1)	-
NMW regulatory compliance	(0.5)	-
Amortisation of acquired intangibles	(7.1)	(7.3)
Total before taxation	(63.9)	(13.8)
Taxation	2.9	2.7
Total after taxation	(61.0)	(11.1)

- The cash cost of Adjusted items relating to continuing operations in 2018 was £8.3m (2017 £6.9m)

Continuing free cash flow

£m	Aug 2018	Aug 2017
Operating profit – adjusted	33.9	54.7
Depreciation and amortisation	11.9	11.7
EBITDA	45.8	66.4
Working capital	7.7	0.4
Capital expenditure	(8.5)	(13.8)
Finance lease payments	(3.8)	(4.2)
Net interest and fees	(5.8)	(4.4)
Taxation	(6.5)	(9.1)
Other	(0.4)	0.3
Free cash flow (excluding Adjusted)	28.5	35.6
Adjusted items	(8.3)	(6.9)
Free cash flow	20.2	28.7

Net debt

£m	Aug 2018	Aug 2017
Opening net debt	(82.1)	(141.7)
Free cash flow to equity	20.2	28.7
Pension deficit	(4.7)	(4.8)
Dividend paid	(24.1)	(23.6)
Disposal proceeds	12.9	58.2
Discontinued cash flow	(8.8)	(1.1)
Finance lease creditor & other	3.2	2.2
Closing net debt	(83.4)	(82.1)
Net debt : EBITDA	1.8x	1.2x

- Committed Bank facilities of £175m to January 2021

Jos Opdeweegh
Chief Executive Officer

Connect group

Initial observations

- **Two distinct businesses**
- **Enthusiastic and capable people**
- **Insufficient focus on:**
  - Standardisation of processes and procedures
  - Principles of continuous improvement
- **Opportunities to be explored**

Tuffnells.

- Lacks the granular information to make the right decisions quickly
- Turnaround will require time and a structured investment

SmithsNews

- Relatively predictable but structural declining market
- Need to identify complementary revenue streams

Summary

Different challenges and priorities for each business

Organisational capabilities

Support Services

People Management	Finance & Administration	Information Technology	Business planning, project management

SERVICES
SLA

SERVICES
SLA

SmithsNews

Revenue

Operating costs

All other allocable costs

Contribution margin

Tuffnells.

Revenue

Operating costs

All other allocable costs

Contribution margin

Immediate priorities 2019

1. **Tuffnells profitability**

Returning Tuffnells to profitability through a reduction of the cost base, a more sophisticated pricing methodology and net new customer wins

2. **Smiths News contracts**

Renegotiating the remaining Smiths News' contracts with key publishers

3. **Standard Operating Model**

Implementing a standardised operating model in Tuffnells to enhance safety, productivity and the overall customer experience

4. **Efficient head office functions**

Streamlining head office functions to improve financial reporting, robust business analytics, increased productivity and continuous improvement

5. **Cost savings at Smiths News**

Maximising the amount of cost savings at Smiths News to diminish the impact of the price adjusted volume decline in the business

6. **Culture**

Embedding a new, entrepreneurial culture with a passion for excellence and customer centricity

Detailed strategic planning process complete by January 2019

Initiatives since 1st September

Organisation structure

- New operating structure, enhancing our focus on the individual needs and opportunities of each business

Refreshed Leadership

- **Jonathan Bunting** – Chief Executive Officer of Smiths News
- **Peter Birks** – Chief Executive Officer of Tuffnells
- **Tim Oglesby** – Chief Information and Transformation Officer
- **Tony Grace** – Chief Financial Officer and Executive Director

Information and decision making

- Improved quality, focus and timeliness of business information

Energising our people

- Action oriented, entrepreneurial values and behaviours
- Engaging and listening to colleagues

Q&A

Jos Opdeweegh
Chief Executive Officer

Connect group

Cautionary statement

Notes to Editors

This document contains certain forward-looking statements with respect to Connect Group PLC's financial condition, its results of operations and businesses, strategy, plans, objectives and performance. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of Connect Group PLC's future performance and relate to events and depend on circumstances that may occur in the future and are therefore subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxation; industrial disputes; war and terrorism. For a more detailed description of these risks, uncertainties and other factors, please see the section titled "Principal Risks" in the preliminary announcement. These forward-looking statements speak only as at the date of this document. Unless otherwise required by applicable law, regulation or accounting standard, Connect Group PLC undertakes no responsibility to publicly update any of its forward-looking statements whether as a result of new information, future developments or otherwise. Nothing in this document should be construed as a profit forecast or profit estimate. This document may contain earnings enhancement statements which are not intended to be profit forecasts and so should not be interpreted to mean that earnings per share will necessarily be greater than those for the relevant preceding financial period. The financial information referenced in this document does not contain sufficient detail to allow a full understanding of the results of Connect Group PLC. For more detailed information, please see the preliminary announcement for the full-year ended 31 August 2018 which can be found on the Investor Relations section of the Connect Group PLC website – www.connectgroupplc.com. However, the contents of Connect Group PLC's website are not incorporated into and do not form part of this document.

The Group uses certain performance measures for internal reporting purposes and employee incentive arrangements. The terms 'net debt', 'free cash flow to equity', 'adjusted operating profit', 'adjusted profit before tax', 'adjusted earnings per share' 'adjusted EBITDA' and 'Adjusted' are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies.

The following are the key non-IFRS measures identified by the Group in the consolidated financial statements as Adjusted results:

Adjusted operating profit: is defined as operating profit including the operating profit of businesses from the date of acquisition and excludes Adjusted items and operating profit of businesses disposed of.

Adjusted profit before tax: is defined as adjusted operating profit less finance costs attributable to adjusted operating profit and before Adjusted items; including amortisation of intangibles and network and reorganisation costs.

Adjusted earnings per share: is defined as adjusted profit before tax, less taxation attributable to Adjusted profit before tax and including any adjustment for minority interest to result in adjusted profit after tax attributable to shareholders divided by the basic weighted average number of shares in issue.

Adjusted: are material items of income or expense excluded in arriving at adjusted operating profit to enable a more representative view of underlying performance. These include certain Mergers & Acquisitions related costs, amortisation of intangibles, integration costs, business restructuring costs, legal provisions and network re-organisation costs including those relating to strategy changes which are not normal operating costs of the underlying business. They are disclosed and described separately in the accounts where necessary to provide further understanding of the financial performance of the Group.

Free cash flow to equity: is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the repayment of bank loans, EBT share purchase and cash flows relating to pension deficit repair. Free cash flow (excluding Adjusted items) is Free cash flow to equity before adjusted cash cost items.

Adjusted EBITDA: is calculated as adjusted operating profit before depreciation and amortisation. In line with loan agreements Adjusted Bank EBITDA used for covenant calculations is calculated as adjusted operating profit before depreciation, amortisation, Adjusted items and share based payments charge but after adjusting for the last 12 months of profits for any acquisitions or disposals made in the year.

Net debt: is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases. Leverage is calculated as net debt divided by EBITDA.

Continuing operations excludes the sale of Education and Care sold on 30 June 2017 and Books division which was classified as held for sale as at 31 August 2017 and sold on the 14 February 2018. Discontinued profit for the year is the Books division for the period after tax.

FY18 refers to the full year ended 31 August 2018, FY17 refers to the full year ended 31 August 2017.

All movements are calculated to round thousands.

Discontinued operations & Adjusted items

£m	Aug 2018	Aug 2017
Adjusted profit before tax	1.7	2.0
Taxation	(0.4)	(1.0)
Profit from discontinued operations	1.3	1.0
Adjusted items - discontinued		
(Loss)/profit on disposal of subsidiaries	(10.5)	19.0
Acquisition and disposal costs	(0.1)	(0.3)
Amortisation of acquired intangibles	-	(11.2)
Total before taxation	(10.6)	7.5
Taxation	-	1.1
Total after taxation	(10.6)	8.6